

Salt Lake City, Utah

Multifamily Housing Update

November 2006

EXECUTIVE SUMMARY

Payroll growth grew moderately stronger in 3Q06, increasing 27,000 or 4.6% to 618,000. In 1H06, growth averaged 26,100 or 4.5%. Stout year-to-date growth nearly ensures that metro payroll growth will exceed last year's nine-year high of 23,300.

The net addition of 5,100 payroll jobs in high wage industries such as finance, insurance and scientific and technical services (average wage \$51,344 to \$57,712) fueled rapid expansion of the metro economy. Specialty trade contractor also hired at an exceptional pace, adding 4,200 jobs in 3Q06, but at lower wages (average \$32,840) the multiplier effect was considerably smaller.

RED forecast payroll job creation of 27,000 in 2006 and 25,000 in 2007. While economic conditions are strong overall, **RED** anticipate slower growth in the construction trades as the housing construction slows.

Average occupancy increased to 94.8%, the highest level since 1Q02. The gain is attributable to steady demand growth and constrained supply, a pattern that has persisted since 2002. Since 4Q02, absorption has outpaced supply by 3,647 units to 1,549.

On a year-over-year basis, metro occupancy increased 80 basis points in 3Q06 as absorption outpaced supply 1,012 units to 460. Reis anticipate a considerable increase of supply and only moderate absorption through YE07, causing occupancy to fall 90bps to 93.9%.

The Northwest Salt Lake submarket experienced the greatest occupancy improvement since 3Q05. Average occupancy increased 220bps to 94.2%, resulting from net absorption

of 92 units against no supply.

Market tightness enabled owners to increase effective rents 3.6%, in 3Q06, reducing concessions to an average of 5.1% of asking rent. Reis project that over the next five quarters supply growth (2.6%) will outpace demand growth (1.6%), constraining effective rent gains to 2.3% in 2007.

On the other hand, eroding home affordability and rapid job formation could yield stronger than expected apartment demand. Indeed, **RED** view the Reis forecast as conservative and expect occupancy to decrease only to the mid to low-94% range. Effective rents should rise by about 3.0% in 2007.

The median single family home price increased 19.2% year-over-year, in the metro, while the national median price declined 1.2%. The home price gain was the third fastest reported by the National Association of Realtors, behind Salem, OR (24.7%) and Elmira, NY (21.4%).

Reis trade data reveal that as recently as 2Q05, class-A assets traded in the 6% - 7% range. Now, class-B/C yields gravitate to the 6% - 6.25% range, while luxury properties sell at substantially lower yields. Looking ahead, **RED** anticipate cap rate decompression of 25bps or more as the market cools.

Market fundamentals in the metro are solid as occupancy is nearing 95% overall and effective rents increased 3.6% year-over-year. Property pricing trends, however, appear aggressive. Therefore, **RED** assigns a rating of "*Opportunistic*", indicating that investment opportunities may exist in the metro, but the current pricing environment does not warrant active trading until cap rates rise.

SNAP SHOT

	Y-o-y change	Projected 2007
Vacancy (5.2% - 3Q06)	↓ 80bps	↑ 90bps
Effective Rents (\$638 - 3Q06)	↑ 3.6%	↑ 2.3%
Cap Rate (6.8% - 3Q06)	↔ unch	↑ up
Employment (618.0k - 3Q06)	↑ 27.0k	↑ 25.0k

KEY POINTS

- Vacancy fell 80 basis points year-over-year to 5.2%, ranking 28th among the **RED** 50. Reis project vacancy to rise to 6.1% by YE07.
- Effective rents increased 3.6% between 3Q05 and 3Q06 to \$638. Asking rents increased 2.4% over the period.
- The average concessions value fell to 5.1% of asking rent in 3Q06.
- According to EquiMark Properties Inc., cap rates remained relatively constant compared to the prior year, in the 6.0% - 7.25% range.
- Metro payrolls increased 23,300 or 4.1% in 2005. **RED** forecast payroll growth of 27,000 (4.6%) in 2006 and 25,000 (4.1%) in 2007.



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